

STATE OF HAWAII

Accounting Manual

Volume I

Part 400: General Nature of the Accounting System

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SECTION 420: GOVERNMENTAL ACCOUNTING PRINCIPLES

The accounting principles and procedures employed in governmental accounting are essentially the same as those of commercial accounting except for the additional emphasis placed on legal compliance in governmental accounting, and the extensive use in governmental accounting of separate fund categories. The following paragraphs cover the accounting principles significant to the accounting system of the State of Hawaii.

Legal Compliance

In any conflict between statutory requirements and accounting principles, the statutory requirements take precedence. Because the accounting system must disclose whether those charged with the administration of government functions have complied with legal requirements related to finances, the accounting system and its terminology, fund structure, procedures, and reports must be adapted to such legal requirements.

The Budget and the Accounting System

The accounting system must also be adapted to the budgetary controls over revenues and expenditures. For this reason, accounts in which to record estimated revenues and estimated appropriations are integrated with the usual proprietary accounts, and appropriation, allotment, and encumbrance accounts conform to the pattern of the budget.

Basis of Accounting

Revenues generally are recorded only when they are received in cash. Revenues for which receivables are recorded are fully reserved until such time as they are converted to cash.

Expenditures are recorded at the time vouchers are registered for payment. At the end of a fiscal year, existing liabilities for which payment is due are vouchered and recorded as expenditures as of the end of the year. Other liabilities for which payment is not due, and obligations in the form of open purchase orders, are recorded as encumbrances at the end of a fiscal year and are not recorded as expenditures until the encumbrances are subsequently liquidated.

Fixed Assets, and Depreciation

General fixed assets purchased or constructed are recorded initially as expenditures and are subsequently carried at cost in the General Fixed Assets Group of Accounts. Their cost includes any related expenses of acquisition.

July 1, 1969

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SECTION 420: GOVERNMENTAL ACCOUNTING PRINCIPLES (cont'd.)

Fixed Assets, and Depreciation (cont'd.)

Fixed assets acquired by donation are carried at their fair market value at the date of acquisition.

Depreciation on general fixed assets is not recorded in the general accounting records, but it may be computed and recorded in separate accounting records of certain government enterprises.

Accounting by Funds

Accounting for governmental financial operations is characterized by the use of separate, self-balancing groups of accounts referred to as "funds". A fund is accounted for independently because of its distinctive nature and purpose, and it contains all the accounts relating to its own resources, obligations, revenues, and expenditures. Statutory restrictions and other regulations and limitations are normally involved in fund designations.

The fund categories maintained for the State of Hawaii are discussed in the following Section of this Part.

July 1, 1969